

# DEBT SERVICE

The Debt Service Fund provides for repayment of government debt, collateralized by the full faith and credit of the City's taxing authority.



## Overview

Funding sources for debt payment include property taxes, sales taxes, transfers from other funds, special assessments, and interest earnings.

The City's Debt Policy is: Long-term borrowing (bonds) is confined to capital improvements and self-insurance programs; short-term debt (notes) is used for bond anticipation purposes; revenue bonds are issued for projects of enterprise funds; an aggressive retirement program be maintained for existing debt, ten years for City at-large debt and 15 years for special assessment debt; general obligation debt finances general purpose public improvements which cannot be financed from current (pay-as-you-go) revenues; special assessment general obligation debt is used to finance special benefit district improvements; and a minimum Debt Service Fund reserve of \$3 million be maintained.

A component of the debt policy is compliance with the legal debt limit. According to Kansas statutes, bonded indebtedness is not to exceed 30 percent of the sum of taxable tangible property valuation and motor vehicle assessed valuation within the jurisdiction.

## Finance and Operations

The budget maintains property tax support at the ten-mill level. No increases in property tax rates are assumed. Debt service estimates are based on the adopted 2001-2010 Capital Improvement Program.

The debt service projection includes general obligation local sales tax (GO-LST) bonds, which will finance construction of the Tyler/Maize and Woodlawn freeway interchanges

<b>Statement of Legal Debt Margin As of August 1, 2001</b>	
2000 Tangible Valuation	\$2,078,567,630
2000 Motor Vehicle Property Assessed Value	306,303,265
<b>Equalized tangible valuation for computation of bonded indebtedness limitations</b>	<b>\$2,384,870,895</b>
<b>Debt limit (30 percent of \$2,392,965,984)</b>	<b>\$715,461,269</b>
Bonded indebtedness	316,775,358
Temporary notes	75,000,000
<b>Total Net Debt</b>	<b>391,775,358</b>
Less exemptions allowed by law:	
Airport	5,595,000
Sewer Improvements	57,505,382
Park Improvements	6,376,818
Sales Tax	68,500,000
Storm Water Drainage Utility	7,365,000
<b>Total deductions allowed by law</b>	<b>145,342</b>
Legal debt applicable to debt margin	246,433,158
<b>Legal debt margin</b>	<b>\$469,028,111</b>

New revenue streams directly offset the debt service requirements for the Tourism and Convention (T&C) and Tax Increment Financing (TIF) Districts. Debt service for the Hyatt Parking Garage and Energy Complex are supported by transient guest taxes exclusive to the Hyatt Hotel. The debt service of the TIF Districts is supported by property tax resulting from the improvements in the respective areas.

The pay-as-you-go program consists of temporary note repayment. Temporary notes are also used for projects, which may not qualify for tax-exempt bond status and therefore, are repaid with higher interest taxable bonds. Pay-as-you-go financing reduces future debt service requirements by retiring obligations following short-term financing.



Projects that are under construction, but not finalized, have caused the reserve level to increase. As the unfinished projects are completed, the fund balance will be reduced to the target level.

## **Revenue Assumptions**

### **Current property taxes...**

- ☞ in 2002 and 2003 will grow at six percent and four percent annually, slowing to three percent annually in 2003 and beyond. No change in the taxing rate is assumed.
- ☞ assume a ten-mill levy for all years.

### **Delinquent tangible property tax...**

- ☞ (for prior years) is projected at two percent (historical average) of current property taxes levied.

### **Payments in lieu of property tax (PILOT)...**

- ☞ are based on the City share of these payments from outstanding industrial revenue bonds.

### **Current special assessments (SAs)...**

- ☞ for 2001 and thereafter are the actual special assessments certified, less any advance or prepayments, as of December 31, 2000.
- ☞ assume a five percent delinquency rate.
- ☞ will change as new assessments are issued and as owners opt for advance payment of assessments.

### **Prepaid special assessments...**

- ☞ are from the City's payment schedules for these assessments, as of March 31, 2001.

### **Delinquent special assessments...**

- ☞ (for prior years) are estimated based on the historical relationship (3.5 percent) to total current and new special assessments.

### **Payments in lieu of special assessments (PILOSA)...**

- ☞ are developed by the Finance Department for GO/SA debt service paid directly by the Water, Sewer, and Airport utilities.

### **Utility delinquent special assessments...**

- ☞ are paid by the Water, Sewer, and Storm Water utilities.
- ☞ are for unpaid general obligation assessments related to water and sewer projects.

### **New special assessment revenues...**

- ☞ are projected to cover debt service (principal and interest) payments for new special assessment projects, less five percent delinquency.
- ☞ relate to debt service payment schedule assumptions below, under iExpenditure Assumptions.†



#### **Motor vehicle property taxes...**

- ☞ for 2001 are based on estimates provided by the Sedgwick County Clerk, as authorized by State statute.
- ☞ are projected first as one total amount, then allocated to the General Fund and the Debt Service Fund.
- ☞ vary between the General and Debt Service Fund because of the state allocation formula, which relates to the prior (budget) year share of the current property tax levy for each fund.

#### **Interest earnings...**

- ☞ are based on an assumed investment earnings rate (five percent) relative to unencumbered fund balance and other total (current) revenues in the Debt Service Fund.

#### **City Hall parking/rent revenues...**

- ☞ are based on utilization of the City Hall parking facility pursuant to estimates provided by the Property Management division.

#### **Transfers in...**

- ☞ from the Tourism and Convention Fund and the Tax Increment Financing Districts are based on debt service schedules for general obligation projects related to these funds.
- ☞ for local sales tax (LST) projects include the amounts for actual (current) debt service (principal and interest).
- ☞ support debt service for the previous sales tax bond issues in 1992 and 1996 for \$50 million and \$25 million, respectively.

## **Expenditure Assumptions**

#### **(GO) general obligation debt service...**

- ☞ is based on actual payment schedules for current GO debt funded by property tax and special assessments.

#### **GO/LST (local sales tax) debt service...**

- ☞ reflects the actual debt service schedule for current general obligation debt funded by the local sales tax.

#### **Fiscal agent/other...**

- ☞ represents an estimate of bond issuance costs based on .1 percent of debt service for all current GO (paid by property tax, SAs and LST).
- ☞ Includes costs associated with the addition of a Capital Improvement Program Coordinator.

#### **Temporary note repayment...**

- ☞ represents a source available for pay-as-you-go financing.
- ☞ fluctuates to maintain fund balance at five percent of annual expenditures.



### New GO debt service paid from property tax...

- ☞ is estimated as the principal and interest payments needed to fund approved and potential projects.
- ☞ assumes payments spread over a ten-year period at a 5.8 percent annual cost of outstanding principal with one interest payment for first six months the bonds were outstanding, and principal payment beginning in the following year

### New special assessment debt service...

- ☞ is the estimate of principal and interest payments needed for special assessment projects of \$12.4 million annually.
- ☞ assumes payments are spread over a 15-year period at a 5.8 percent annual cost on outstanding principal with one interest payment between six to 12 months after bond issuance, depending on certification to the County, and principal payments beginning in the year following.

### Fund balance (December 31)

☞ on December 31, 2002, is projected to be \$3,173,131 or 4.86 percent of fund expenditures. The Adopted 2001-2010 Capital Improvement Program (CIP) is presented to the City Council as a separate document. The program is projection of infrastructure construction and reconstruction over the next decade.

<b>Debt Service Fund Budget Summary</b>					
	<b>2000 Actual</b>	<b>2001 Adopted</b>	<b>2001 Revised</b>	<b>2002 Adopted</b>	<b>2003 Approved</b>
General Property Tax	18,785,713	20,303,750	20,298,820	21,336,530	22,188,990
Special Assessments	24,575,626	24,156,840	25,925,090	25,138,760	24,677,430
Motor/Recreational Vehicle Tax	3,594,205	2,976,080	3,287,080	3,406,300	3,508,490
Interest Earnings	1,836,141	1,491,130	2,075,000	1,500,000	1,500,000
Transfers In/T&C	2,350,180	2,007,130	2,393,720	2,396,280	2,408,560
Transfers In/TIF Districts	821,348	1,284,830	1,365,730	1,346,740	1,400,460
Transfers In/Other	10,249,649	9,261,650	9,598,090	9,241,000	6,780,410
<b>Total Debt Service Fund Revenue</b>	<b>62,212,862</b>	<b>61,481,410</b>	<b>64,943,530</b>	<b>64,365,610</b>	<b>62,464,340</b>
Existing Debt	49,770,042	48,566,330	52,229,840	50,750,780	45,240,030
Temporary Notes	2,896,418	5,666,460	18,000,000	13,025,000	12,000,000
New Debt	0	7,248,620	0	1,551,000	5,478,000
Appropriated Reserves	0	0	15,500,000	0	0
<b>Total Debt Service Fund Expenditures</b>	<b>52,666,460</b>	<b>61,481,410</b>	<b>85,729,840</b>	<b>65,326,780</b>	<b>62,718,030</b>
Revenue Over (Under) Expenditures	9,546,402	0	(20,786,310)	(961,170)	(253,690)
<b>Debt Service Fund Balance</b>	<b>25,036,511</b>	<b>25,036,511</b>	<b>4,250,201</b>	<b>3,289,031</b>	<b>3,035,341</b>

# CAPITAL IMPROVEMENT



The schedule of new capital projects represents the efforts of the City to address critical infrastructure needs based on evaluations of:

- ☞ Need for new capital construction to support community growth and development,
- ☞ Existing infrastructure reconstruction requirements,
- ☞ Capital investments necessary to improve services to the public,
- ☞ Coordination with available Federal and State grant funding, and
- ☞ Local financing capabilities based on prior City Council policy determinations, including designated mill levy support (approximately ten mills) and use of local sales tax revenues for freeways, as well as a limited amount for arterial streets and bridges.

**CIP Development and Capacity Forecasting.** The development of the CIP is coordinated by the CIP Administrative Committee, which includes senior staff from City departments. The process consists of:

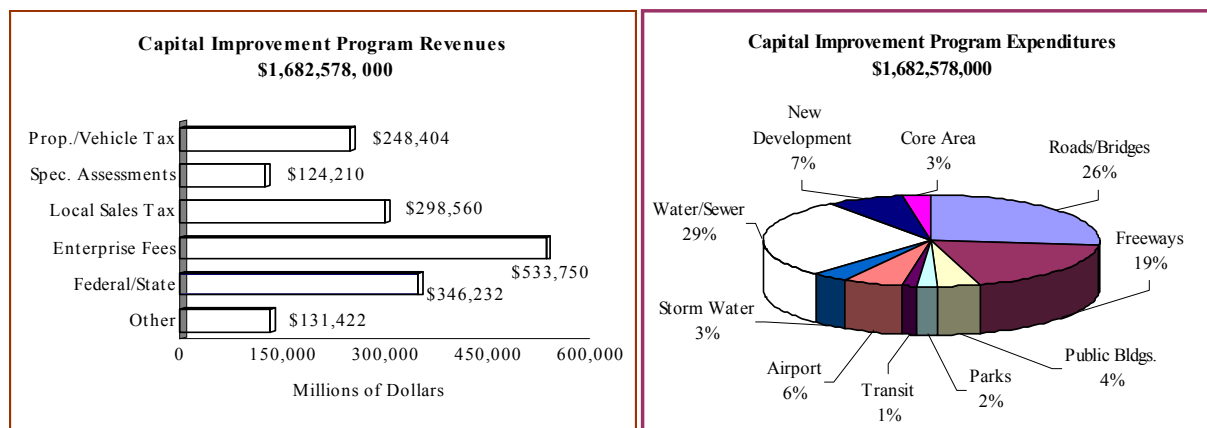
- ☞ Confirmation of existing debt obligations and funding sources required to defray these costs.
- ☞ Verification of open or outstanding capital projects which require future debt financing.
- ☞ Projection of revenues and expenditures on a multi-year basis, first to meet existing debt obligations and then to project debt financing capacity for new capital project costs, and
- ☞ Proposals for future capital project costs based on the past CIP and Staffis understanding of City Council and community needs to the extent that those future project costs can be sustained given projections of the revenue stream and debt capacity.

## The Capital Improvement Program

The Adopted CIP meets all debt service obligations for current capital projects and new projects approved for 2001-2010. The 2001-2010 CIP totals nearly \$1.7 billion over the ten-year period.

The City's capital program is diverse in meeting capital needs for new and reconstructed roadways, bridges, parks, public facilities, railroad grade separations, infrastructure for new residential development, downtown development, public transit, and City enterprises (water, sewer, storm water, airport, and golf). The Capital Improvement Program includes 359 new projects over the next ten years.

The property tax provides 15 percent of the financial resources. Another significant revenue source is federal/state grants (21 percent of the total). New residential development capital costs are paid from

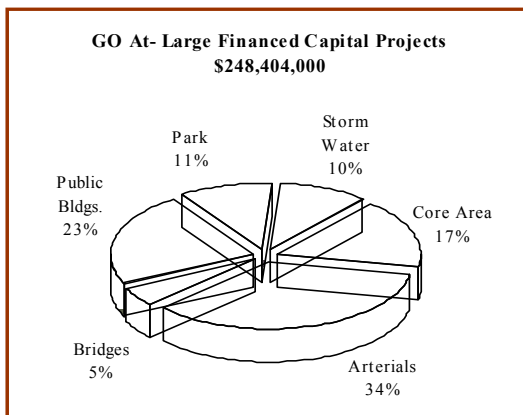




special assessments (seven percent). The enterprise activities (water, sewer, storm water, airport, and golf) fund capital projects through fees constituting 32 percent of total CIP resources. Local Sales Tax funding of 18 percent of the proposed CIP is based on a projection of freeway (Kellogg) construction segments in both east and west Wichita. Other revenue sources comprise the remaining seven percent of CIP funding.

The City finances capital projects in a variety of ways: general obligation bonds/notes, revenue bonds, grants, and cash. The most significant of these is general obligation (GO) bonds based on the full faith and credit of the City. GO bonds provide debt financing for property tax funded projects, and also for capital projects with debt paid by enterprises such as Airport, Golf, and Storm Water and special revenues such as Guest Tax. Based on generally accepted accounting principles, debt service payments for GO debt are spread to the Debt Service Fund or the various enterprise and internal service funds, as appropriate.

The projects that rely primarily upon property taxes are arterial streets, bridges, parks, transit, core area projects, and public buildings. Partial storm water funding with property tax backed GO bonds is continued in this program. Other capital project costs are funded through enterprise, internal service, and special revenue funds.



### Program Highlights

**Arterials and bridges** account for 40 percent of At-Large project costs and encompass 79 projects. Over \$98 million in At-Large resources leverages over \$183 million in Federal and State grants. There is often a two to three year lead-time for grant funding, so it is critical that local funds be available as scheduled. Arterial street projects are balanced between the repair/improvement of older streets, and new construction to serve developing areas of the City.

**Park** projects total \$30,397,000, spread over 45 projects throughout the City. Funds for park renovation, new park land acquisition, and new park development are included. Park capital program highlights include developing the Northeast sports complex, rehabilitating Riverside Park, and investing in the maintenance and upgrade of existing parks.

**Public buildings** include 29 projects and more than \$56,532,000 in at-large resources. Other funding sources increase total planned public building expenditures to more than \$73,728,000. Major projects include a new South Regional Branch Library, the Fire apparatus replacement program, expansion of the City's maintenance facilities, and implementation of the Fire Station Construction and Relocation plan.

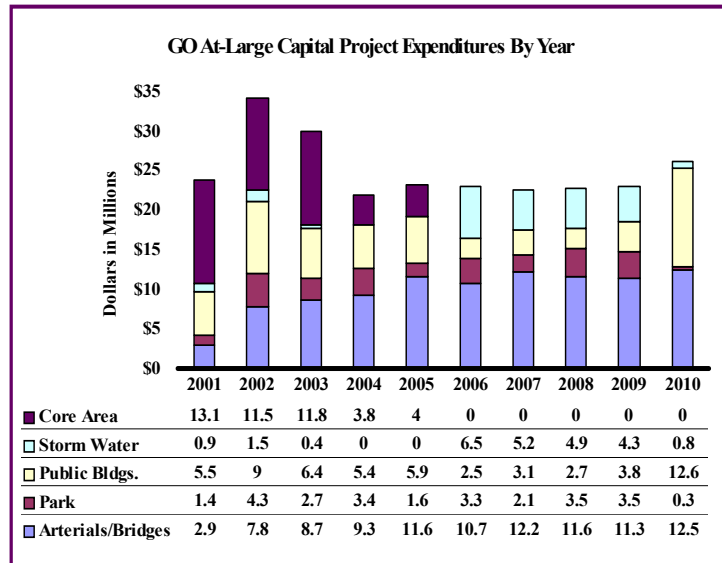
**Core area** projects continue to demonstrate the City's commitment to the vitality of the downtown area. A total of \$48.5 million is allocated for projects such as upgrades to Lawrence Dumont Stadium, River Corridor improvements, and additional cultural attractions in Old Town.



**Transit** at-large capital costs are reflected in the planned purchase of replacement trolleys, at a cost of \$520,000. Other Transit capital funding of \$24.5 million for bus and equipment replacements are planned using a combination of Transit revenues and Federal funds.

**Storm water** at-large funding totals \$24.5 million. Utility revenues and other sources fund an additional \$29 million in capital projects, with total expenditures of \$53.8 million. Major projects include drainage improvements along West St. between Maple and Central, implementation of Cowskin Creek basin improvements, and enlarging and lining the Wichita Drainage Canal north from 10th St. to 17th St.

A number of other capital project categories are financed primarily through non-property tax backed sources. Primarily, improvements are financed with enterprise revenues, local sales tax dollars, or State and Federal grant dollars.



**Freeways** consist of \$315 million in projects over the next seven years, 71 percent funded by a 1 percent local sales tax (LST). The freeway program emphasizes construction of interchanges along the U.S. 54 (Kellogg) corridor. It calls for construction of interchanges at Woodlawn, Tyler, and Maize in years 2001-2004, and Rock, Webb, and Greenwich by 2008. Purchase of right-of-way for interchanges at 119<sup>th</sup>, 135<sup>th</sup>, and 151<sup>st</sup> Street is also included. The freeway program is very aggressive, and relies on State, Federal, and County funding assistance to complete the projects in ten years. Without outside funding assistance, the projects from 119<sup>th</sup> to 151<sup>st</sup> can only be constructed after 2010.

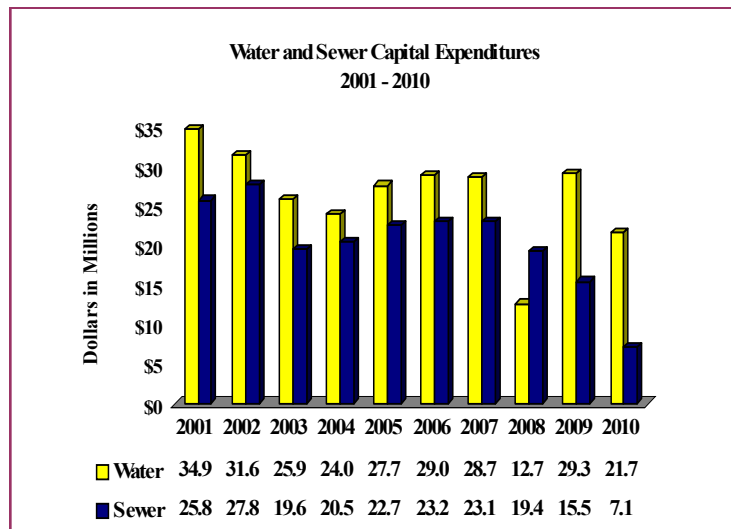
The **Airport** CIP consists of 14 projects totaling \$97 million, funded by Airport revenues (\$37 million) and Federal funds (\$52 million). Projects are identified for Mid-Continent and Jabara airports. Projects include terminal improvements at Mid-Continent, reconstructed aprons and taxiways, tenant improvements, and preservation of Airport land.

The **Water and Sewer Utility** has projects programmed for extension of services to far west and far northeast Wichita to accommodate growth in these sectors. The Water capital plan totals \$265 million. In addition to significant infrastructure maintenance and extension, over \$12.5 million is programmed for improved transmission and storage facilities in the northeast and northwest sectors of the City. A second water treatment plant is planned, to be located in northwest Wichita. Expenditures of over \$112 million are anticipated for developing additional water supplies for Wichita. Water system upgrades are



planned as well, such as repairs to the 48<sup>th</sup> and 66<sup>th</sup> raw water lines that flow into the water treatment plant. The CIP also includes over \$4 million annually to replace older mains, to maintain existing infrastructure, and reduce the need for system repairs.

Planned Sewer projects total over \$204 million. Highlights of the Sewer CIP include the construction of a new sewage treatment plant in northwest Wichita, the collection system necessary to accommodate the plant, and improvements to existing treatment plant #2. A major investment is also a sewer main replacement program (\$44 million) to reconstruct aging infrastructure. Implementation of the Water and Sewer capital projects plans will require utility rate increases.



## Conclusion

The Capital Improvement Program is a diligent effort to reflect the desires of the Council and the citizens of Wichita. Not all projects are funded, but the CIP does prioritize needs in the community such as:

- ☞ Accelerating the construction of Kellogg.
- ☞ Implementing the Fire Station Construction/ Relocation plan approved by the Council.
- ☞ Building a new regional branch library.
- ☞ Consolidating maintenance operations through improvements at the Central Maintenance Facility.
- ☞ Increasing emphasis on building new drainage systems to eliminate flooding.
- ☞ Developing additional parking downtown.
- ☞ Enhancing the City's cultural museums.
- ☞ Rehabilitating existing parks, constructing new sports complexes, and constructing new parks.

However, not all needs could be met:

- The local sales tax, by itself is not sufficient to construct all segments of the planned freeway system.
- Storm Water projects are below critical need projections, despite the addition of at-large funding.
- Funding is included for only one bridge over the floodway in west Wichita. Constructing more than one crossing would require that additional funds be identified.

Other capital requests in all categories could not be scheduled within the ten-year CIP.

The City Council has adopted the 2001-2010 Capital Improvement Program and approved the 2001-2002 CIP as a capital budget for purposes of project initiation. The 2001-2002 CIP is a very aggressive capital budget, but when implemented, the community will be better served by the policy decisions reflected in this document.